

SBA Loan Fund: A Year in Review

Solomon Hess Capital Management (“Solomon Hess”) witnessed another successful year for the Solomon Hess SBA Loan (“SBA Loan Fund” or “the Fund”). In 2016, the Fund invested \$201 million in 327 small business loans nationwide. The Fund, a certified Community Development Entity, primarily invests in the debt of small businesses located in lower income communities targeted by bank investors.

The Fund added its 104th bank investor, solidifying its acceptance as a CRA-eligible fund for banks seeking community development credit (lending or investment). The 809 small business loans currently in portfolio supported the creation/retention of 12,820 jobs, 76% of which are located in lower income communities.

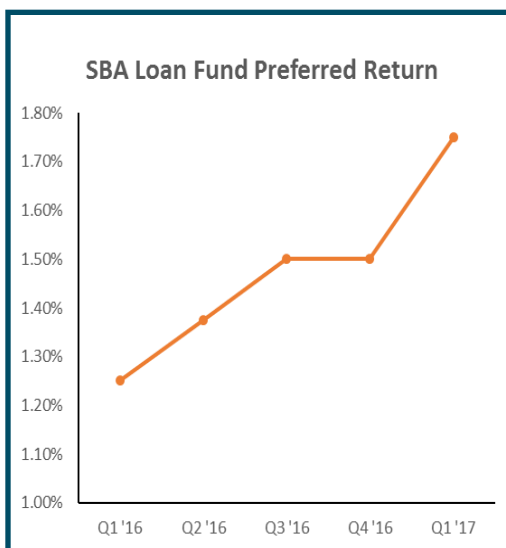
The Fund acquires the federally guaranteed portion of CRA-qualified floating rate Small Business Administration (“SBA”) Advantage Loans (formerly known as 7(a) loans) where the underlying small business borrower is located in a lower income community targeted by investors.

Since inception in 2004, the Fund has invested over \$1.2 billion in over 2,679 small business loans which supported 34,020 jobs nationwide. By investing in the Fund, banks are making a direct and measurable impact in their communities. ■

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Preferred Return structure is established at the beginning of every quarter. Preferred Return for any given quarter is not necessarily indicative of overall Fund performance. Past performance is no guarantee of future results and future returns are not guaranteed.

SBA Loan Fund Raises Preferred Return Q1 2017

The SBA Loan Fund raised its Preferred Return a quarter percentage point for Q1 2017. The Preferred Return is annualized and net of all expenses and fees (including management fee). This was the third raise in four quarters, reflecting SHCM’s confidence in the portfolio. ■

Debrief from CRA & Fair Lending Colloquium: Components of a Successful CRA Plan

The CRA & Fair Lending Colloquium hosted by Wolters Kluwer took place in Las Vegas, NV on November 13-16, 2016. Over 700 CRA and compliance professionals, regulators and industry experts were in attendance. Solomon Hess was proud to sponsor this important annual industry event.

At the break out session entitled “CRA as a Growth Strategy: When, Why and How Should You Prepare a CRA Plan?” panelists Norman Bliss of KeyBank, Nancy Brown of Charles Schwab Bank, Vicki Tassan of E*TRADE and Keith Turbett of First Tennessee Bank discussed the components of a successful CRA plan. All four panelists agreed on four critical components of a successful CRA plan.

Firstly, senior management support is essential to having a successful CRA

Successful CRA Plan Components

- ◆ Senior management support
- ◆ Set goals based on performance context
- ◆ Engage business lines in CRA decisions
- ◆ Build relationships with community partners

strategy. “As a first step, it is critical to have senior management engaged,” Bliss said. He spoke about KeyBank CEO Beth Mooney’s commitment to increasing banking access to the traditionally underserved as a core value of the bank. Bliss gave as an example the role Mooney played in bringing about the \$16.5 billion community benefits agreement signed by KeyBank and the National Community Reinvestment Coalition (NCRC) in March 2016. (Continued on page 2)

Takeaways from CRA & Fair Lending Colloquium

- ◆ Real “teeth” to CRA are restrictions to growth: M&A, branching and new products
- ◆ Regulators are focused on achieving greater consistency and encourage banks to view regulators as primary resources to query
- ◆ Successful community development programs demonstrate growth, variety and innovation
- ◆ Benefit of the Strategic Plan Option is proactive management of CRA
- ◆ Role of Consumer Financial Protection Bureau in enforcement of bank lending practices had been growing

Tassan added the importance of involving senior management in viewing CRA as a real line of business, especially in reporting and monitoring.

The panel also agreed that goal setting based on performance context is a second critical component of a successful CRA plan. The issue of goal setting was raised numerous times by attendees and there was a general consensus that regulators do not provide enough guidance in terms of benchmarks for goal setting. The panelists emphasized the use of performance context when setting their own CRA goals. The key to CRA goal setting is to make them measurable, relevant and appropriate to your bank. For example, it would not make sense for E*TRADE to use deposits as a measure when setting CRA goals because of its branchless non-traditional business model. Panelists concurred that increasing investment levels from previous exam cycles is important as regulators like to see growth. In addition, relevant peer Performance Evaluation (PE) comparisons can be

insightful in setting performance context and should be used as a good resource.

A third component of a successful CRA plan is to engage the bank's business lines behind CRA activities. “Never make CRA decisions in a vacuum,” advised Turbett from First Tennessee Bank. Turbett spoke about the importance of getting buy-in from leaders of the bank's different business lines early in the decision making process.

The fourth and last component mentioned by the panelists is strong relationships with community partners. In her role as Director of Community Development for Charles Schwab Bank, Brown is out in the field, meeting with community partners to identify needs and opportunities. While Charles Schwab Bank may not be able to satisfy all the needs, Brown sees her role as a catalyst to find resources that may be able to assist where there is a need. Bliss concurred that maintaining relationships with community partners is critical to setting performance context and identifying opportunities. ■

Small Business Administration Sets New Small Business Lending Records for 2016

2016 was another successful fiscal year for the Small Business Administration (“SBA”) and its flagship Advantage Loan Program as it set records with 64,073 loans approved totaling \$24.12 billion. Comparing 2015, these represent increases of 1.7% in number of loans and 2.6% in gross total dollars. The SBA's Advantage Loan Program provides small businesses with comprehensive financial assistance covering the vast majority of small business needs including working capital, fixed and intangible asset financing as well as refinance and export support through term and revolving loans.

The SBA continues to improve access to its loan program for small loans and underserved markets delivering more than 44,000 small loans of \$350,000 or less in 2016. Loans of \$2 million or less totaled \$7.8 billion and accounted for 32% of gross totals. This is a 69.5% increase from 2011 when loans of \$2 million or less totaled \$4.6 billion and accounted for 23% of gross total dollars.

SBA lending continues to have a significant positive effect on underserved groups. In FY16, minority business owners received \$7.3 billion in Advantage Loans, a 7.1% increase from the previous year. Majority women-owned businesses received \$3.4 billion in Advantage Loans, a 1% increase from the previous year.

According to Maria Contreras Sweet, outgoing SBA Administrator, small businesses in the United States create two out of three net new American jobs and produce close to half of the country's goods and services. She said, “Ensuring the growth of small business is central to powering both our economy and the American dream.” ■

Sources:

- i. “SBA Sets New Business Lending Records” (2016, October 31). Retrieved November 7, 2016, from www.sba.gov
- ii. “SBA Accomplishments FY 2016” (n.d.). Retrieved November 22, 2016, from [sba.gov](http://www.sba.gov)
- iii. “SBA Administrator Maria Contreras-Sweet on the Importance of Small Business Week” (2016, May 6). Retrieved November 22, 2016, from <http://www.ebaymainstreet.com/news-events/sba-administrator-maria-contreras-sweet-importance-small-business-week>

SBA Updates

Linda McMahon, former chief executive officer of World Wrestling Entertainment, was selected on December 7, 2016, to head the Small Business Administration. As head of the SBA, Ms. McMahon would oversee an agency with a budget of more than \$10 billion.

The SBA announced new names for its core business loan programs to better reflect their purposes and improve borrower understanding. The SBA 7(a) Program was renamed as the SBA Advantage Loan Program and the SBA 504 Program has been renamed the SBA Grow Loan Program. While these changes became effective November 1, 2016, the rebranding will be rolled out over time. ■

Sources:

- i. Simon, Ruth and Mann, Ted. (2016, December 12). Linda McMahon Backed Revamp of SBA, Which She Has Been Picked to Lead. The Wall Street Journal, Retrieved from <http://www.wsj.com/articles/linda-mcmahon-backed-revamp-of-sba-which-she-has-been-picked-to-lead-1481503897>
- ii. “Rebranding the 7(a) and 504 Loan Program Names” (2016, November 1). Retrieved November 28 from <https://www.sba.gov/sites/default/files/articles/0000-2169.pdf>

SBA Loan Fund: Small Business Loan Profiles



Restore Solar and Electric, Salt Lake City, UT - Restore Solar and Electric is a residential solar design and installation firm focused solely on third party installation for solar sales and leasing companies. Restore Solar was established in Salt Lake City in May, 2015. Current operations span Utah, Nevada and Southern California. In February 2016, Goldman Sachs provided a \$3 million credit facility to finance the installation and lease of solar energy systems for 448 single-family homes in Salt Lake City, the majority of which are leased to low- and moderate-income residents. Installation of the panels for this project will be done by Restore Solar. Restore Solar is located in a low income census tract and is committed to hiring and training low- and moderate-income individuals in the solar panel installation trade. **Impact: creation/retention of 50 jobs.** ■

OSC Computer Training, Sacramento, CA - OSC is a small private vocational school whose mission is to engage with the local community and businesses to provide quality, affordable education to prepare students for a professional career and/or fulfil their personal interests for lifelong learning. Established in 1987, the school has gained a reputation for providing high quality training and job placement assistance services. OSC offers 17 certificate programs in the following fields: business, medical office, graphics and web design/programming, and IT. OSC is also licensed to provide Distance Education by the State of California Bureau for Private Postsecondary Education (BPPE) and offers its programs to distant students across the state of California. OSC is located in a low income census tract and a CDFI Fund Qualifying Investment census tract. **Impact: creation/retention of 10 jobs.** ■



Kaurina's, Dallas, TX - Kaurina's is a family-owned manufacturer of Authentic Indian kulfi and exotic gourmet ice creams based in a low income census tract in Dallas. Kulfi is a frozen Indian dessert similar to traditional ice cream but is denser and contains half the fat. Established in the family's garage in 2004, Kaurina's has grown into a full-fledged manufacturing business selling not only at the local Punjabi and Indian grocery shops in and around Texas, but also in big stores such as HEB, Fiesta marts and even in some of the Costco stores on the West Coast. In September 2013, Kaurina's was named Grand Champion for its Malai (Cardamom Cream) Kulfi Bars in the "Open Class for Creative and Innovative Products" at the World Dairy Expo Championship held in Madison, Wisconsin. The location of the business is in a low income census tract in Dallas. **Impact: creation/ retention of 2 jobs.** ■

Sources:

i. "Restore Utah and Goldman Sachs Surpass \$100m in Low and Moderate Income Residential Investments in Salt Lake" (2016, May 26). Retrieved December 8, 2016 from <http://www.utahbusiness.com/restore-utah-and-goldman-sachs-surpass-100m-in-low-and-moderate-income-residential-investments-in-salt-lake/>

ii. "Impact Investing: LMI Residential Rooftop Solar, Salt Lake City, UT" Retrieved December 8, 2016 from <http://www.goldmansachs.com/what-we-do/investing-and-lending/impact-investing/case-studies/lmi-residential-rooftop-solar-slc.html>

iii. www.restore solar.com

iv. www.oscct.com

v. "Dallas Based Kaurina's Original Kulfi Wins Big Time National Award" (2012, August 30). Retrieved December 6, 2016, from <http://www.dallasnews.com/life/healthy-living/2012/08/30/dallas-based-kaurinas-original-kulfi-wins-big-time-national-award>

vi. Dallas-Based Kaurina's Original Kulfi Wins National Award" (2012, August 27). Retrieved December 6, 2016, from <http://www.dmagazine.com/food-drink/2012/08/dallas-based-kaurinas-original-kulfi-wins-national-award/>

vii. "Kaurina's - A Peek Behind the Kulfi Brand" (2013, March 2). Retrieved December 6, 2016, from <http://kaurifilms.com/kaurinas-a-peek-behind-the-kulfi-brand/>

Impact Record

Including Restore Solar, OSC Computer Training and Kaurina's, the Solomon Hess SBA Loan Fund has invested in 2,679 US-based small businesses since inception resulting in the creation and retention of 34,020 jobs throughout investors' communities nationwide.

SOLOMON HESS CAPITAL MANAGEMENT

431 Park Ave, Suite 401

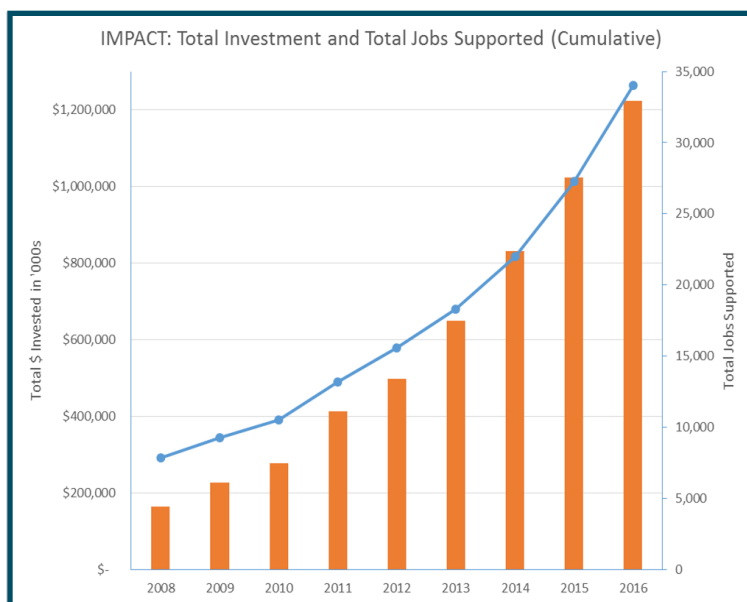
Falls Church, VA 22046

WWW.SOLOMONHESS.COM

Managing Good Capital Well

Solomon Hess Capital Management (“Solomon Hess”) is an Investment Advisor located in Falls Church, Virginia with \$595 million of assets under management. Solomon Hess specializes in the small business and community impact sectors. Our investors include banking institutions of all sizes that are seeking Community Development Investment or Lending test credit within the Community Reinvestment Act (CRA) rules via exposure to SBA Advantage Loan (formerly known as 7(a) loans) and related assets.

For more information visit www.solomonhess.com or contact Michelle Lai, Investor Relations at mgolai@solomonhess.com



The Solomon Hess SBA Loan Fund LLC attempts to provide its investors with CRA credit related to their participation in the Fund. Investment decisions are not always exclusively based on the economic characteristics or investment merit of a specific asset. Certain CRA eligible securities sought by the Fund in specific geographies may not provide as great an economic benefit to the Fund as the same securities located in non-CRA geographies. The Fund may engage in transactions at times for reasons related to CRA considerations that may not be desirable from an investment standpoint. If one or multiple federal banking regulators, such as the OCC, FDIC or the Federal Reserve Board, were to deem an investment in the Fund as not qualifying for CRA credit, the impact to Fund investors could be material.